

MANATEE COUNTY CLERK OF THE CIRCUIT COURT
INTERNAL AUDIT DEPARTMENT
PUBLIC WORKS WASTEWATER DIVISION
A U D I T R E P O R T

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MANATEE COUNTY CLERK OF THE CIRCUIT COURT
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PUBLIC WORKS WASTEWATER DIVISION

A U D I T R E P O R T

A financial, compliance, and operational audit of Manatee County's Public Works Wastewater Division was conducted by the Internal Audit Department for the audit period October 1, 1996 through September 30, 1998. The audit was performed in accordance with *Generally Accepted Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors.

BACKGROUND:

The Public Works Wastewater Division is responsible for providing collection, treatment, monitoring, testing and reclamation of the wastewater produced in Manatee County through its six sections of operations. These sections include the following areas:

Sewer Collections provides repair and maintenance services for wastewater collection lines, force mains and manholes.

Sewer Lift Stations provides for the operation, maintenance, renovation, and replacement of lift stations located throughout Manatee County.

Sewer Plant Operations provides treatment of raw sewage and septic tank sludge at three sub-regional treatment plants.

Reclaimed Water Services coordinates Manatee County programs designed to encourage the use of treated wastewater for irrigation.

Laboratory provides analytical services for the Wastewater Division, which include data analysis, interpretation, and consultation.

Industrial Compliance controls industrial discharge into the sanitary sewer system in order to protect the wastewater treatment plants, protects county workers from hazardous chemicals, and protects the integrity of the County's Reuse Program.

PURPOSE/OBJECTIVE:

The main audit objectives included, but were not limited to, the following:

- To verify accuracy and input timeliness of financial data, and reports processed and received by the Public Works Wastewater Division.
- To verify an adequate system of internal control exists to safeguard assets, maintain the integrity of reports on operations, and provide adequate evaluation of the Public Works Wastewater Division's objectives and responsibilities.
- To verify compliance with significant laws and regulations, including Florida Statutes, federal regulations, ordinances, resolutions, policies, and signed agreements or contracts related to the Public Works Wastewater Division.
- To evaluate operational efficiency and effectiveness.

SCOPE:

The financial audit scope consisted of a review of accounts, financial transactions, and reports of the Wastewater Division for the period October 1, 1996 through February 28, 1998.

The compliance audit scope consisted of a review of the policies and procedures, Florida Statutes, federal regulations, ordinances, resolutions, contracts, administrative orders and agreements related to the Wastewater Division for the period October 1, 1996 through September 30, 1998.

The operational audit scope consisted of a review of the Wastewater Division's internal controls and the effectiveness and efficiency of the operations during the audit period October 1, 1997 through June 30, 1998. Management controls were also reviewed to identify significant weaknesses that may have contributed to deficient performance.

METHODOLOGY:

Internal control evaluations were accomplished by flow charting key operations, discussions with management and staff, observations, and analytical and substantive testing of individual internal controls.

Risk analysis was used to establish priorities of audit objectives. Statistical sampling was used whenever appropriate to accomplish audit objectives.

IRREGULARITIES, ABUSE, OR ILLEGAL ACTS:

No indications of irregularities, abuse, or illegal acts were discovered during the audit that could affect the Public Works Wastewater Division for the audit period ending September 30, 1998.

TEST OF COMPLIANCE:

Internal Audit tested compliance with certain laws and regulations, obtained an understanding of internal controls, and assessed control risk. Tests performed appeared to provide sufficient evidence

to support an opinion on compliance and internal controls.

Except as noted in our audit report, tested items were in compliance with significant laws, regulations, and internal controls that included Florida Statutes, ordinances, resolutions, personnel policies, administrative orders, and other policies established by the Public Works Wastewater Division and other applicable laws and regulations.

STATEMENT ON INTERNAL CONTROL STRUCTURE:

In planning and performing our audit of the Public Works Wastewater Division for the period ending September 30, 1998, we considered its internal control structure in order to determine our auditing procedures for the purpose of our report on the Public Works Wastewater Division. As a result, we noted in the audit report significant matters involving the internal control structure and its operations that we consider to be reportable conditions under standards established by the U.S. General Accounting Office,

Government Auditing Standards. Reportable conditions involve matters relating to significant deficiencies in the design or operation of the internal control structure, that in our judgment, could adversely affect the organization's ability to record, process, summarize and report on data consistent with management's intentions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions, as defined above. In addition, because of the inherent limitations in any internal control structure, significant deficiencies in the design or operation of the internal control structure may exist and not be detected. We believe the conditions identified in our audit report constitute reportable conditions as previously defined.

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MANAGEMENT SUMMARY:

Internal Audit reviewed the operations of the Public Works Wastewater Division. Based on our review, the operations appear to be meeting the needs of Manatee County residents. Overall, the Wastewater Division is staffed by responsible individuals who are knowledgeable in the wastewater industry. Our audit identified several areas where improvements can be made that will enhance the operations of the Wastewater Division. The following improvements are recommended:

1. **The Longboat Key Agreement** - The agreement with the Town of Longboat Key can be improved by including specifics on meter reading procedures for billing purposes and dispute procedures. Testwork revealed that documentation could not be provided to ensure the rates have been calculated based on the specifics of this agreement. In addition, a comparison of meter readings from Longboat Key's meter and Manatee County's meter for the wastewater processed, indicated significant differences, averaging 28% in the last four years. Subsequent calibrations of both meters appear to indicate differences from 5% to 16%. Other compliance issues include: Longboat Key was not always billed at the higher rate for exceeding excess capacity; payments were not received within the specified time frame; and the County has not re-evaluated the cost of wastewater for potential rate adjustments. In the report, we recommend management consider amending the Longboat Key agreement, negotiate and resolve differences in meter readings for the past four years and comply with all conditions of the agreement. (See Area for Improvement #1 on page 7.)

2. **Inventory Management:** Improvement is recommended in the management of inventory at the wastewater treatment plant valued in excess of \$1,000,000. This inventory is also not recorded as an asset in the finance computer system or included in the financial statements. In this report we recommend management establish procedures for inventory management and record inventories in the finance system. (See Area for Improvement #2 on page 8.)

3. Preventive Maintenance Work Order: The computer system currently used to monitor and track preventive maintenance work orders used by various sections of the Wastewater Division can be improved by expanding on its hardware and networking capabilities. In addition, documentation requirements should be improved to ensure the monitoring of work orders. In this report we recommend the Division update their computer system to take full advantage of their software's capabilities and implement procedures to adequately monitor all open work orders to ensure timely completion and proper closure of the work order process. (See Area for Improvement #3 on page 9.)

4. Septage Hauler Permits: The Industrial Compliance Section can improve its controls over issuing of septage waste hauler permits. The Section is issuing permits without checking on the status of the septage haulers' accounts; does not have procedures to suspend permits when accounts become delinquent; and is not requiring deposits from haulers when accounts are opened. In addition, the Section is not requiring insurance from the septage haulers who are using the County's system. In this report we recommend the Wastewater Division consider moving the function of issuing permits to the Fiscal Services Division and require all septage waste haulers to provide proof of insurance as part of the permitting process. (See Area for Improvement #4 on page 10.)

AUDIT REPORT AUTHORIZATION:

Other minor findings, not included in this report, have been communicated with management or corrected during the audit. We would like to thank the Public Works Wastewater Division's personnel and management for the cooperation and courtesy afforded to our auditors throughout the audit.

This audit report has been reviewed and authorized by:

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Richard J. Orienti, CIA, CFE R. B. "Chips" Shore

Director of Internal Audit Clerk of the Circuit Court

AREA FOR IMPROVEMENT #1

Subject: The Longboat Key Agreement

Manatee County signed a forty-year agreement with the Town of Longboat Key in September 1971 that allows for Longboat Key to utilize the County's wastewater services. The agreement provides specific details on the computation of the Longboat Key's sewage rates. It does not, however, specify whose meter would be read for the County's billing purposes. In addition, the agreement did not contain any provisions for handling disputes between the two parties.

Testwork revealed that documentation could not be found to ensure that the rates have been calculated based on the specifics of this agreement. It was also noted that Longboat Key has been providing

Manatee County with meter readings that are used to bill for services. A comparison of the Wastewater Division meter and the Longboat Key meter for the last four years indicated differences averaging 28% in the quantity of wastewater processed. A subsequent calibration of both meters still indicated differences from 5% to 16%. The County and Longboat Key are currently in negotiations to resolve these differences.

Other contract compliance observations included but were not limited to:

a.

1. The Fiscal Services Division is responsible for tracking and billing sewer flow that exceeds Longboat Key's reserved capacity. Based on a review of a twelve-month period, two months were not billed at the excess flow rate resulting in an under-billing of \$12,600.
2. Under the agreement, payments are due on the tenth day of the following month. Based on a review of a twelve month period, payments were received an average of 28 days late. Payments should be made on time and in accordance with the agreement.
3. The agreement requires the County to re-evaluate the cost per million gallons of flow annually to adjust the payments and establish a new rate for the following year. The Department has not performed this annual review.

Internal Audit recommends management consider amending the Longboat Key agreement to include specifics on obtaining meter readings for billing purposes and procedures for handling disputes. We also recommend the Wastewater Division negotiate and resolve the differences in the readings of both the County and Longboat Key's meters. In the future, we further recommend that procedures be implemented to ensure a level of accuracy exists prior to billing. We further recommend that management comply with all conditions of the agreement.

AREA FOR IMPROVEMENT #2

Subject: Inventory Management

The Bayshore Operations Complex, Wastewater Division Laboratory, Electrical Repair Shop, and Wastewater Treatment Plants contain significant inventory. There does not appear to be controls in place to account for their inventory. The wastewater treatment plants, including the electrical repair shop, maintain an inventory in excess of \$1,000,000 that is not recorded as an asset in the finance computer system or included in the financial statements.

Internal Audit recommends that management establish procedures for inventory management to provide greater accountability in those sections with significant inventory. We further recommend the Division record inventories in the finance computer system so that they could take advantage of the controls built into the system.

AREA FOR IMPROVEMENT #3

Subject: Preventive Maintenance Work Order

The Sewer Collections, Lift Stations and Plant Maintenance Sections of the Wastewater Division are

using different versions of a plant maintenance software package for their preventive maintenance work order system that does not appear to be performing to management's expectation. The current computer hardware and network capabilities in each of the sections appear to limit the software's performance potential. As a result, the sections are not recording all costs associated with the preventive maintenance work orders. Input to the current system is behind approximately five months therefore, making it impossible to track the status of work orders through the computer and supervisors are having to resort to manually tracking work orders. While some sections appear to have procedures in place for the manual review and follow-up on open work orders, adequate documentation was not available to verify this process. Management has also expressed that the system takes a long time to update and run reports. Additionally, the version currently used by the Lift Station's Section is not Year 2000 compliant.

Internal Audit recommends the Wastewater Division update their computer system to take full advantage of the work order system's potential and ensure that the system is Year 2000 compliant. In addition, we recommend that procedures be implemented to adequately monitor all open work orders to ensure timely completion and proper closure of the work order process.

AREA FOR IMPROVEMENT #4

Subject: Septage Hauler Permits

The Industrial Compliance Section is responsible for issuing permits to septage waste haulers. During a review of this process, it was observed that the Section does not communicate with the Public Works Fiscal Services Division on the status of permit holders' accounts. The Section has been re-issuing permits on accounts with delinquent balances. In addition, procedures have not been established to suspend permits when waste haulers' accounts become delinquent. Since deposits are not required from septage waste haulers, the County has limited protection against past due accounts.

The Industrial Compliance Section purchased an operational system to process the waste received from the septage haulers. The system has strict operating requirements that have been communicated to the haulers. Management has expressed concern over what recourse would be available if system failure results from the septage haulers' negligence. The County does not require proof of insurance or any other form of surety for protection in case of damage to the system.

Internal Audit recommends the Wastewater Division consider moving the function of issuing permits to the Fiscal Services Division to improve effectiveness. We also recommend the Division consider requiring all septage waste hauler to have and provide the County with proof of insurance as part of the permitting process.

MANATEE COUNTY GOVERNMENT

MEMORANDUM

DATE: December 9, 1998
TO: R.B. "Chips" Shore, Clerk of Circuit Court
FROM: Lenox "Len" Bramble, Director of Public Work

SUBJECT: Draft Audit Report

Receipt is acknowledged of your December 3, 1998 memorandum regarding the above subject and we certainly do recognize the thoroughness of the audit conducted by the "Clerk of Courts Internal Audit Division". The Public Works Wastewater Division's staff appreciates the confidence expressed by the subject auditor's report which states that the "operations appears to be meeting the needs of Manatee County residents" and that "the Wastewater Division is staffed by responsible individuals who are knowledgeable in the wastewater industry". The dedicated wastewater staff continually and actively pursues quality improvement of the wastewater system to insure regulatory compliance and operational effectiveness 24 hours per day, 365 days each year.

The recommendations outlined in the subject audit are excellent and are agreed upon to be pursued. The four noted areas of improvements are addressed below to reflect progress made to achieve compliance with the auditors' recommendations.

1. THE LONGBOAT KEY AGREEMENT

Meetings have been held recently with the City of Longboat Key's representatives and subsequent meetings are scheduled to satisfactorily resolve the meter reading differences.

2. INVENTORY MANAGEMENT

The Wastewater Division is presently verifying all listed inventory, providing inclusions of all existing motors, pumps, etc. not presently on the inventory, and insuring a new equipment and parts being received are properly included on the inventory of assets. Attached as Exhibit 1 is the software enhancement for the Hansen version 7.0 which provides the software program for inventory and preventative maintenance elements of the three wastewater treatment plants.

In addition, attached also is Exhibit 2 which provides new computers for the Sewer Collection Section to implement the Hansen 7.0 version for the inventory control and preventative maintenance element.

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2. INVENTORY MANAGEMENT (continued)

The Lift Station Section has set aside FY '99 funding for the software/hardware necessary to incorporate the proper inventory and maintenance elements.

The Wastewater Division is enhancing its procedures for inventory management to provide greater accountability through the newly enhanced Hansen software program.

3. PREVENTIVE MAINTENANCE WORK ORDER

The above-mentioned Hansen version 7.0 software program purchased includes a preventative maintenance program which will address the issue raised in the audit. Specifically, various screens in the program will highlight work orders incomplete, not closed, and delaying other work tasks.

4. SEPTAGE HAULER PERMITS

The Public Works Department concurs with the recommendation for transferring the fiscal and permit issuance elements from the Wastewater Division to the Fiscal Service Division to improve effectiveness. Specifically with respect to proof of insurance by the haulers. Please find attached Exhibit 3 which reflects the haulers' insurance companies policies. Also, in the newly revised Ordinance 98-28, effective date of September 8, 1998, under Section 5.6 entitled, "Wastewater Discharge Permit Revocation", the Public Works Director may revoke a wastewater discharge permit for good cause, including, but not limited to, the following reasons: (See attached Exhibit 4)

Again, we appreciate the efforts made by your staff to identify areas of concern necessary to improve the Wastewater Division. We accept with enthusiasm the recommendations and will pursue achievement of each item.

We especially wish to commend your staff for the fine effort in working with our staff throughout the audit period.

EM/cs

cc: Dan Gray, Operations Manager
Ed McAdam, Wastewater Division Manager